

PROJECT SANCTUARY, INC.

UKIAH, CALIFORNIA

FINANCIAL STATEMENTS

JUNE 30, 2008

DATE RECEIVED:



AUDIT REVIEW #(s) 04979

Assigned To: MOUNT

Date Reviewed: 7/22/09

Reviewer's Initials: DM

Date Review(s) Completed: 7/22/09

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INDEPENDENT AUDITORS' REPORT

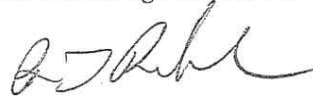
Board of Directors
Project Sanctuary, Inc.
Ukiah, California

We have audited the accompanying statement of financial position of Project Sanctuary, Inc. as of and for the year ended June 30, 2008, and the related statement of activities and statement of cash flows for the year then ended. These financial statements are the responsibility of Project Sanctuary, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior-year summarized comparative information has been derived from Project Sanctuary, Inc.'s 2007 financial statements and, in our report dated March 11, 2008, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Project Sanctuary, Inc. as of and for the year ended June 30, 2008, and the changes in its net assets and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 20, 2009 on our consideration of Project Sanctuary, Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



R.J. Ricciardi, Inc.
Certified Public Accountants

San Rafael, California
April 20, 2009

Project Sanctuary, Inc.
STATEMENTS OF FINANCIAL POSITION
June 30, 2008
(With Comparative Totals for June 30, 2007)

	<u>2008</u>	<u>2007</u>
<u>ASSETS</u>		
Current assets:		
Cash & cash equivalents	\$ 70,999	\$ 92,742
Accounts receivable	255,327	269,069
Prepaid expenses	409	707
Total current assets	<u>326,735</u>	<u>362,518</u>
Non-current assets:		
Fixed assets, net of accumulated depreciation	324,418	329,814
Deposits	3,000	5,590
Total non-current assets	<u>327,418</u>	<u>335,404</u>
Total assets	<u>\$ 654,153</u>	<u>\$ 697,922</u>
 <u>LIABILITIES AND NET ASSETS</u>		
Current liabilities:		
Accounts payable	\$ 10,873	\$ 12,577
Accrued payroll	11,403	26,148
Accrued vacation	21,054	22,169
Deferred revenue	16,297	14,546
Total current liabilities	<u>59,627</u>	<u>75,440</u>
Net assets - Exhibit A:		
Unrestricted - undesignated	591,906	481,411
Unrestricted - designated	2,620	141,071
Total unrestricted net assets	<u>594,526</u>	<u>622,482</u>
Total liabilities and net assets	<u>\$ 654,153</u>	<u>\$ 697,922</u>

The accompanying notes are an integral part of these financial statements.

Project Sanctuary, Inc.
STATEMENTS OF ACTIVITIES
For the Year Ended June 30, 2008
(With Comparative Totals for the Year Ended June 30, 2007)

Exhibit A

	<u>2008</u>	<u>2007</u>
Revenues:		
Federal grants	\$ 330,710	\$ 353,312
State grants	413,833	404,502
Local government	63,489	78,871
United Way	1,021	3,069
In-kind contributions	124,174	119,993
Special events & donations	72,990	69,726
Miscellaneous	<u>74,821</u>	<u>72,782</u>
Total revenues	<u>1,081,038</u>	<u>1,102,255</u>
Expenses:		
Domestic violence assistance	361,578	424,429
Sexual assault counseling	301,943	282,072
Housing	240,410	208,407
General & administrative	<u>170,278</u>	<u>199,780</u>
Total expenses	<u>1,074,209</u>	<u>1,114,688</u>
Change in net assets	6,829	(12,433)
Net assets, beginning of period	622,482	634,915
Prior period adjustment	<u>(34,785)</u>	<u>-</u>
Net assets, end of period	<u>\$ 594,526</u>	<u>\$ 622,482</u>

The accompanying notes are an integral part of these financial statements.

Project Sanctuary, Inc.

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2008

(With Comparative Totals for the Year Ended June 30, 2007)

	Inland	Coast	Shelter	General & Administration	Total	Total 2007
Expenses:						
Salaries & wages	\$ 239,788	\$ 208,036	\$ 71,865	\$ 49,491	\$ 569,180	\$ 566,334
Payroll taxes	20,036	17,264	6,025	5,479	48,804	48,582
Employee benefits	35,854	33,099	10,307	8,534	87,794	116,124
In-kind	-	-	124,174	-	124,174	119,993
Outside services	8,372	4,133	3,102	48,598	64,205	70,765
Office supplies	1,552	1,950	243	4,259	8,004	9,679
Program supplies & expenses	6,141	7,322	2,118	4,666	20,247	5,822
Occupancy and utilities	19,095	7,621	11,506	16,531	54,753	51,541
Communications	5,140	5,189	1,827	3,731	15,887	18,542
Insurance	-	-	-	5,688	5,688	9,043
Travel & training	6,175	2,713	72	1,522	10,482	12,083
Printing	263	674	-	278	1,215	5,711
Equipment maintenance	1,952	1,166	1,413	5,042	9,573	8,867
Recruitment	-	300	-	1,731	2,031	1,016
Sub-contractors	-	-	-	-	-	2,475
Interest	-	-	-	220	220	649
Fundraising	508	-	-	4,346	4,854	428
Depreciation	-	6,136	7,346	2,554	16,036	16,970
Miscellaneous	16,702	6,340	412	7,608	31,062	50,064
Total expenses	\$ 361,578	\$ 301,943	\$ 240,410	\$ 170,278	\$ 1,074,209	\$ 1,114,688

The accompanying notes are an integral part of these financial statements.

Project Sanctuary, Inc.
STATEMENTS OF CASH FLOWS
For the Year Ended June 30, 2008
(With Comparative Totals for the Year Ended June 30, 2007)

Exhibit C

	<u>2008</u>	<u>2007</u>
Cash flows from operating activities:		
Change in net assets	\$ 6,829	\$ (12,433)
Prior period adjustment	(34,785)	-
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	16,036	16,970
Changes in certain assets and liabilities:		
Accounts receivable	13,742	(4,440)
Prepaid expenses	298	7,694
Deposits	2,590	(1,705)
Accounts payable	(1,704)	7,207
Accrued payroll	(14,745)	14,852
Accrued vacation	(1,115)	1,406
Deferred revenue	1,751	9,706
Line of credit	-	(50,000)
Net cash provided (used) by operating activities	<u>(11,103)</u>	<u>(10,743)</u>
Cash flows from investing activities:		
Acquisition of fixed assets	<u>(10,640)</u>	-
Net cash provided (used) by investing activities	<u>(10,640)</u>	-
Net increase (decrease) in cash during the period	(21,743)	(10,743)
Cash & cash equivalents balance, beginning of period	<u>92,742</u>	<u>103,485</u>
Cash & cash equivalents balance, end of period	<u>\$ 70,999</u>	<u>\$ 92,742</u>

The accompanying notes are an integral part of these financial statements.

Project Sanctuary, Inc.
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2008

NOTE 1 - GENERAL

Project Sanctuary, Inc. (the Agency) was incorporated as a California non-profit public benefit corporation in 1978. The Agency operates a crisis shelter and a transitional duplex for battered persons and their children. In addition to these operations, the Agency provides 24 hour crisis response, group and individual counseling, and court support for families affected by domestic violence or sexual assault, but not in need of safe emergency housing. The Agency also makes educational presentations to community groups and schools. The Agency offers the following programs:

- Domestic Violence Assistance
- Sexual Assault Counseling
- Housing

These programs are offered at inland, coast, and shelter locations.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting

The financial statements and records of the Agency are prepared on the accrual basis of accounting and, therefore, include all support and revenues when earned and all expenses when incurred, regardless of whether these support and revenues or expenses were received or paid as of the end of the period. Grants are recognized as support when earned in accordance with the terms of each grant or agreement.

B. Basis of Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Agencies*. Under SFAS No. 117, the Agency is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

C. Cash and Cash Equivalents

For purposes of reporting the statement of cash flows, cash and cash equivalents include cash on deposit with financial institutions.

D. Fixed Assets

Fixed assets are stated at cost and depreciation is computed on the straight-line basis of accounting over the estimated useful lives of the assets. The Agency's capitalization level is \$1,000. Furniture and equipment are being depreciated over estimated useful lives of 5 years. Leasehold and building improvements are being depreciated over estimated useful lives of 10 to 25 years.

Project Sanctuary, Inc.
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2008

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (concluded)

E. Unrestricted Net Assets

Unrestricted net assets generally result from revenues obtained by providing services, receiving unrestricted contributions, and receiving interest and dividends from income-producing assets. The only limits on the use of unrestricted net assets are the broad limits resulting from the nature of the Agency and the purposes specified in its Articles of Incorporation or Bylaws and limits resulting from contractual agreements entered into by the Agency in the course of its operations.

F. Public Support and Revenue

Donations represent contributions to the Agency from private agencies, individuals, and companies and are recognized as support when received.

Contribution of donated non-cash assets are recorded at their fair values in the period received. Contributions of donated services that create or enhance non-financial assets or that require specialized skills are recorded at their fair values in the period received. Donated services of non-financial assets are provided by individuals possessing specialized skills that would typically need to be purchased if not provided by donation.

G. Use of Estimates

The financial statements have been prepared in conformity with U.S. generally accepted auditing standards and, as such, include amounts based on informed estimates and judgments of management with consideration given to materiality. Actual results could differ from those estimates.

H. Risk Management

The Agency is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the Agency carries commercial insurance.

I. Contingencies

The Agency participates in numerous grants. Disbursement of funds received under these grants requires compliance with terms and conditions specified in the grant agreement and are subject to audit by the grantor agency. Any disallowed costs resulting from such an audit could become a liability of the general fund or other applicable funds.

NOTE 3 - INCOME TAXES

The Agency is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The Agency is also exempt from California franchise taxes under Section 23701(d) of the Revenue and Taxation Code and, therefore, has made no provision for Federal or California income taxes. Contributors, donors and grantors may obtain tax benefits. In addition, the Agency has been determined by the Internal Revenue Service not to be a "private foundation" within the meaning of Section 509(a) of the Code.

Project Sanctuary, Inc.
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2008

NOTE 4 - RISKS AND UNCERTAINTIES

The Agency maintains cash balances at the Savings Bank of Mendocino County. At June 30, 2008 and 2007, the cash balances were \$70,999 and \$92,742. The corresponding bank balances were \$72,877 and \$105,343, of which \$72,877 and \$100,000 were insured by the Federal Deposit Insurance Corporation (FDIC). The remaining balances were uninsured and held by the financial institution in the Agency's name. It is the opinion of management that the solvency of the financial institution is not of particular concern at this time. Subsequent to year-end, Congress increased the FDIC insurance to \$250,000 effective from October 3, 2008 until December 31, 2009.

Financial instruments which potentially expose the Agency to concentrations of investment risk consist primarily of marketable securities. The Agency will occasionally receive donations in the form of marketable securities.

NOTE 5 - CONCENTRATIONS

The Agency receives a substantial amount of revenue from grants and contracts with the State of California. During the year ended June 30, 2008 and 2007, revenues from this source totaled \$744,543 and \$757,814, representing 68% and 68% respectively, of the Agency's total revenues for the year.

NOTE 6 - FIXED ASSETS

The following is a summary of changes in property, plant and equipment during the years ended June 30:

	Balance June 30, 2007	Additions	Deletions	Balance June 30, 2008
Buildings & improvements	\$ 355,355	\$ 10,640	\$ -	\$ 365,995
Equipment	12,771	-	-	12,771
Land (not depreciated)	132,000	-	-	132,000
Total	500,126	\$ 10,640	\$ -	510,766
Less: accum. depreciation	(170,312)			(186,348)
Fixed assets, net	\$ 329,814			\$ 324,418

Depreciation expenses for the years ended June 30, 2008 and 2007 were \$16,036 and \$16,970, respectively.

NOTE 7 - ACCRUED VACATION

Accumulated unpaid employee vacation benefits are recognized as liabilities of the Agency. The amount of accumulated vacation totaled \$21,054 and \$22,169 at June 30, 2008 and 2007, respectively.

NOTE 8 - DEFERRED REVENUE

Deferred revenue represents funds received from various agencies and participants, but not yet earned. The amount of unearned revenue for the year ended June 30, 2008 and 2007 was \$16,297 and \$14,546, respectively.

Project Sanctuary, Inc.
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2008

NOTE 9 - IN-KIND

Values assigned to in-kind contributions and the related expenses are based upon estimated area-wide averages for purchased services, facilities, or supplies of a similar type. In-kind contributions and expenses are recorded when used in the program and are not carried forward. In-kind contributions were \$124,174 and \$119,993 for the years ended June 30, 2008 and 2007, respectively.

NOTE 10 - LEASE COMMITMENTS

The Agency leases its facility under a non-cancelable operating lease expiring July 31, 2012. Minimum future rental payments under this non-cancelable operating lease as of June 30, 2008, for the next four years:

2009	\$	31,704
2010		31,704
2011		31,704
2012		31,704

Rental expense for the year ending June 30, 2008 totaled \$26,768

NOTE 11 - UNRESTRICTED BOARD DESIGNATED FUNDS

Unrestricted board designated funds are for multiple year projects and operating reserve. At June 30, unrestricted board designated funds consisted of the following:

	2008
Operating reserve	<u>\$ 2,620</u>

INDEPENDENT AUDITORS' REPORT ON
INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT
AUDITING STANDARDS

Board of Directors
Project Sanctuary, Inc.
Ukiah, California

We have audited the financial statements of Project Sanctuary, Inc. (the Agency) as of and for the year ended June 30, 2008, and have issued our report thereon dated April 20, 2009. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Agency's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the Agency's financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over financial reporting.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Agency's financial statements that is more than inconsequential will not be prevented or detected by the internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

However, we noted other matters involving the internal control over financial reporting that we have reported to management of the Agency in a separate letter dated April 20, 2009.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

However, we noted certain matters that we reported to management of the Agency in a separate letter dated April 20, 2009.

This report is intended solely for the information and use of Project Sanctuary, Inc.'s management, Board of Directors, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



R. J. Ricciardi, Inc.
Certified Public Accountants

San Rafael, California
April 20, 2009

PROJECT SANCTUARY, INC.

MANAGEMENT REPORT

**For the Year Ended
JUNE 30, 2008**

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Board of Directors
Project Sanctuary, Inc.
Ukiah, California

In planning and performing our audit of the financial statements of Project Sanctuary, Inc. for the fiscal year ended June 30, 2008, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control.

Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

However, during our audit, we noted certain matters involving the internal control structure and other operational matters that are presented for your consideration. We will review the status of these comments during our next audit engagement. Our comments and recommendations, all of which have been discussed with appropriate members of management, are not intended to be all-inclusive, but rather represent those matters that we considered worthy of your consideration. Our comments and recommendations are submitted as constructive suggestions to assist you in strengthening controls and procedures; they are not intended to reflect on the honesty or integrity of any employee. We will be pleased to discuss these comments in further detail at your convenience, to perform any additional study of these matters, or to assist Project Sanctuary, Inc. in implementing the recommendations.

This report is intended solely for the information and use of management, the Board of Directors, and officials of the federal and state grantor agencies and should not be used by anyone other than these specified parties.

We thank Project Sanctuary, Inc.'s staff for its cooperation during our audit.



R.J. Ricciardi, Inc.
Certified Public Accountants

San Rafael, California
April 20, 2009

Project Sanctuary, Inc.
MANAGEMENT REPORT
For the Year Ended June 30, 2008

We have audited the financial statements of Project Sanctuary, Inc. for the year ended June 30, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated July 10, 2008, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of Project Sanctuary, Inc. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Project Sanctuary, Inc. are described in Note 2 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by Project Sanctuary, Inc. during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. We evaluated the key factors and assumptions used to develop the accounting estimates in determining that it is reasonable in relation to the financial statements taken as a whole. The most sensitive estimate(s) affecting the financial statements were:

- Accrual and disclosure of compensated absences;
- Capital asset lives and depreciation expense.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on Project Sanctuary, Inc.'s financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by Project Sanctuary, Inc., either individually or in the aggregate, indicate matters that could have a significant effect on the organization's financial reporting process.

Project Sanctuary, Inc.
MANAGEMENT REPORT
For the Year Ended June 30, 2008

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to Project Sanctuary, Inc.'s financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as Project Sanctuary, Inc.'s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

Project Sanctuary, Inc.
MANAGEMENT REPORT
For the Year Ended June 30, 2008

Current Year Observations

There were no current year observations

Prior Year Observations

1) Accounting Procedures Manual

Observation:

During the course of our audit, we noted that the Project Sanctuary, Inc. (the Agency) does not have an accounting procedures manual.

Recommendation:

We recommended the Agency establish an accounting procedures manual. An accounting procedures manual will prevent or reduce misunderstandings, errors, inefficient or wasted effort, duplicated or omitted procedures, and other situations that can result in inaccurate or untimely accounting records. A well-devised accounting manual can also help to ensure that all similar transactions are handled consistently, that proper accounting principles are used, and that records are produced in the form desired by management. A good accounting manual should aid in the training of new employees and allow for delegation of certain accounting functions to other employees. It will take some time and effort for management to develop a manual; however, we believe this time will be more than offset by time saved later in training and supervising accounting personnel. Also, in the process of the comprehensive review of existing accounting procedures for the purpose of developing the manual, management might discover procedures that can be eliminated or improved to make the system more efficient and effective.

Response:

The Agency is in the process of developing a written accounting manual.

Status:

This recommendation has been implemented.

2) Capitalization Policy

Observation:

During our test of the Agency's fixed assets, we noted that the capitalization amount for fixed assets is \$1,000.

Recommendation:

We recommended the Agency capitalize fixed assets of \$5,000 or over. Although the current capitalization policy is acceptable, raising the capitalization amount may reduce the time required for record keeping of fixed assets.

Response:

The Agency concurs and will request the Board of Directors make the change to the policy.

Project Sanctuary, Inc.
MANAGEMENT REPORT
For the Year Ended June 30, 2008

Status:

This recommendation has been implemented.

3) Computer Passwords

Observation:

During the course of our audit, we noted that no controls over computer access were in place. Also, there were no passwords assigned to access the Agency's accounting system, QuickBooks. This could result in unauthorized entries or adjustments being made. With so many different users having access to the Agency's computers, this increases the risk of potential errors and inconsistencies in the accounting records.

Recommendation:

We recommended the Agency adopt controls over computer access by assigning passwords to all computers.

Response:

The Agency concurs and will implement this recommendation immediately.

Status:

This recommendation has been implemented.

4) Backup of Computer Files

Observation:

During the course of our audit, we noted that the Agency does not back-up accounting and other computer files and records onsite.

Recommendation:

We recommended that accounting records be backed up at least weekly, be properly labeled, and another copy be stored offsite. One of the main reasons for creating backup files is to be able to recover information in the event of a disaster, such as fire or water damage.

Response:

The Agency concurs and will implement this recommendation immediately.

Status:

All Agency employees back-up data to portable jump drives. Additionally, the outside accounting firm backs up the QuickBooks data in their office on a daily basis.

Project Sanctuary, Inc.
MANAGEMENT REPORT
For the Year Ended June 30, 2008

5) Written Fraud Procedures

Observation:

During the course of our audit, we noted that the Agency has no written procedures for prevention, detection, and deterrence of fraud.

Recommendation:

We recommended the Agency develop written fraud procedures to be followed by appropriate employees, to help safeguard against fraud and misappropriation.

Response:

The Agency concurs and will develop and implement such a policy.

Status:

This recommendation has been implemented.



Project Sanctuary

BOARD OF DIRECTORS

Steve Conway, Chair
Matson Construction

Anne Boyes, Vice Chair
North Valley School

Patricia Meek, Secretary
Mendocino County Health
and Human Services Agency

Sally Webster, Treasurer
Mendocino Transit Authority

Justin Briggs
KWNE Radio

Paul Conrado
Conrado Vineyards

Charley Myers
Retired Educator, UUSD

Missy Nelson,
St. Mary's School

Mark Puthuff
Chief of Police, Fort Bragg

Stephanie Rodriguez
Ukiah Valley Medical Center

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April 14, 2009

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1000 Fourth Street, Suite 400
San Rafael, CA 94901

We are providing this letter in connection with your audits of the statement of financial position of Project Sanctuary, Inc. as of June 30, 2008 and the related statements of activities, functional expenses, and cash flows for the year then ended for the purpose of expressing an opinion as to whether the financial statements present fairly, in all material respects, the financial position, changes in net assets, and cash flows of Project Sanctuary, Inc. in conformity with U.S. generally accepted accounting principles. We confirm that we are responsible for the fair presentation in the financial statements of financial position, changes in net assets, and cash flows in conformity with generally accepted accounting principles. We are also responsible for adopting sound accounting policies, establishing and maintaining effective internal control, and preventing and detecting fraud.

We understand that you prepared the trial balance for use during the audit and that your preparation of the trial balance was limited to formatting information in the Project Sanctuary, Inc.'s general ledger into a working trial balance. Also, as part of your audit, you prepared the draft financial statements and drafted the related notes from the trial balance. We have reviewed and approved those financial statements and related notes and believe they are adequately supported by the books and records of Project Sanctuary, Inc.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

We confirm, to the best of our knowledge and belief, (as of April 14, 2009), the following representations made to you during your audit.

- 1) The financial statements referred to above are fairly presented in conformity with U.S. generally accepted accounting principles and include all assets and liabilities under the Organization's control.
- 2) We have made available to you all—
 - A. Financial records and related data.
 - B. Minutes of the meetings of Board of Directors or summaries of actions of recent meetings for which minutes have not yet been prepared.
- 3) We have disclosed all communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.

- 4) We have disclosed all material transactions that have not been properly recorded in the accounting records underlying the financial statements.
- 5) We are in agreement with the adjusting journal entries you have proposed, and they have been posted to the organization's accounts.
- 6) We acknowledge our responsibility for the design and implementation of programs and controls to prevent and detect fraud.
- 7) We have no knowledge of any fraud or suspected fraud affecting the Organization involving—
Management,
Employees who have significant roles in internal control, or
Others where the fraud could have a material effect on the financial statements.
- 8) We have no knowledge of any allegations of fraud or suspected fraud affecting the Organization received in communications from employees, former employees, grantors, regulators, or others.
- 9) The Organization has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or net asset balances.
- 10) The following, if any, have been properly recorded or disclosed in the financial statements:
 - a. Related party transactions, including revenues, expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties.
 - b. Guarantees, whether written or oral, under which the Organization is contingently liable.
 - c. All accounting estimates that could be material to the financial statements, including the key factors and significant assumptions underlying those estimates, and we believe the estimates are reasonable in the circumstances.
- 11) There are no estimates that may be subject to a material change in the near term that have not been properly disclosed in the financial statements. We understand that *near term* means the period within one year of the date of the financial statements. In addition, we have no knowledge of concentrations existing at the date of the financial statements that make the organization vulnerable to the risk of severe impact that have not been properly disclosed in the financial statements. We understand that *concentrations* include individual or group concentrations of contributors, grantors, clients, customers, suppliers, lenders, products, services, fund-raising events, sources of labor or materials, licenses or other rights, or operating areas or markets. We further understand that *severe impact* means a significant financially disruptive effect on the normal functioning of the organization. We have identified all accounting estimates that could be material to the financial statements, including the key factors and significant assumptions underlying those estimates, and we believe the estimates are reasonable in the circumstances.

- 12) We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us; and we have identified and disclosed to you all laws, regulations and provisions of contracts and grant agreements that we believe have a direct and material effect on the determination of financial statement amounts or other financial data significant to the audit objectives.
- 13) Project Sanctuary, Inc. is an exempt organization under Section 501 (c) (3) of the Internal Revenue Code. Any activities of which we are aware that would jeopardize the Organization's tax-exempt status, and all activities subject to tax on unrelated business income or excise or other tax, have been disclosed to you. All required filings with tax authorities are up-to-date.
- 14) We have disclosed all—
- a. Violations or possible violations of laws and regulations and provisions of contracts and grant agreements whose effects should be considered for disclosure in the financial statements, as a basis for recording a loss contingency, or for reporting on noncompliance.
 - b. We are not aware of any pending or threatened litigation, claims, or assessments or unasserted claims or assessments that are required to be accrued or disclosed in the financial statements in accordance with *Statement of Financial Accounting Standards No. 5*, and we have not consulted a lawyer concerning litigation, claims, or assessments.
 - c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by *Statement of Financial Accounting Standards No. 5*.
 - d. Designations of net assets disclosed to you that were not properly authorized and approved, or reclassifications of net assets that have not been properly reflected in the financial statements.
- 15) The Organization has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged.
- 16) We have complied with all restrictions on resources and all aspects of contractual and grant agreements that would have a material effect on the financial statements in the event of noncompliance. This includes complying with donor requirements to maintain a specific asset composition necessary to satisfy their restrictions.
- 17) We have not consulted with an attorney during the fiscal year and subsequently through the date of this letter.
- 18) All copies of original documents provided to you have not been improperly altered or changed.

No events have occurred subsequent to the statement of financial position date and through the date of this letter that would require adjustment to, or disclosure in, the financial statements.

Signature:  _____

Title: Executive Director